PROGRESSIVE
BUILDING SOCIETY

PILLAR 3 DISCLOSURES
31 DECEMBER 2022

CONTENTS

1. OVERVIEW

The Basel Committee on Banking Supervision introduced the Basel legislative framework governing how much capital all banks and building societies must hold to protect their members, depositors and shareholders. The EU Capital Requirements Directive (CRD) is the means by which Basel III was implemented in the EU. In the UK this has been implemented through rules introduced by the Prudential Regulation Authority (PRA).

The Basel framework consists of three main pillars:

- Pillar 1 – Minimum Capital Standards
- Pillar 2 – Supervisory Review Process
- Pillar 3 – Disclosure

Pillar 1 determines the minimum capital standards required by the firm focusing on credit, market and operational risks.

Pillar 2 requires the firm to set aside adequate additional capital to cover the risks not already provided for under Pillar 1. The Board of Progressive Building Society assessed all major risks in the business and determined the capital required under a severe economic downturn.

Pillar 3 complements the minimum capital requirements (Pillar 1) and the supervisory review process (Pillar 2). Its aim is to encourage market discipline by developing a set of disclosure requirements which allow market participants to assess key pieces of information on a firm's capital, risk exposures and risk assessment processes. The disclosures are made to the market for the benefit of the market.

BASIS OF PREPARATION

The sole purpose of these disclosures is to give information on the basis of calculating capital requirements and on the management of the risks faced by the Society. This is in accordance with the rules laid out in the PRA handbook and CRD IV as applicable.

The Society satisfies the criteria for being a 'small and non-complex' institution under Article 433b of the CRR as contained in the PRA Rulebook. As such, these disclosures comply with the requirements of the derogation for small and non-complex institutions as set out in Article 433b.

Row numbers in the standarised templates within the document relate to the PRA prescribed templates. Where rows are not relevant to the Society, they have in some circumstances been excluded for the purposes of enhancing the readability and understanding of these disclosures in line with Article 432.

FREQUENCY OF DISCLOSURE

Disclosures will be issued at least annually on the Progressive website **www.theprogressive.com** based on the most recent published Annual Report and Accounts. All figures are based on 31st December 2022, the Society's financial year end.

COUNTRY BY COUNTRY REPORTING

Country by country reporting is detailed in the Business Review section of the 2022 Annual Report and Accounts.

VERIFICATION AND SIGN-OFF

These disclosures are not subject to external audit except where they are equivalent to those prepared under accounting requirements for inclusion in the Society's audited Annual Report and Accounts. The disclosures are first reviewed by the Deputy Chief Executive & Finance Director acting as the 'first line' under the three lines of defence Model. The Chief Risk Officer, acting as the second line, will then review the disclosure prior to presentation to the Management Risk Committee and Board Risk Committee for challenge. The Board Risk Committee recommends the disclosure to the Board for review and approval. The Society's Board reviewed and approved these disclosures in April 2023.

SUMMARY OF KEY DISCLOSURES

The table below provides an overview of the Society's Prudential Regulatory Metrics:

Template UK KM1 – Key Metrics Template		31/12/2022 £000's	31/12/2021 £000's
Available own funds (amounts)			
1	Common Equity Tier 1 (CET1) capital	146,390	132,131
2	Tier 1 capital	146,390	132,131
3	Total capital	148,789	133,357
Risk-weighted exposure (amounts)			
4	Total risk-weighted exposure amount	638,112	589,780
Capital ratios (as a percentage of risk-weighted exposure amount)			
5	Common Equity Tier 1 ratio (%)	22.94%	22.09%
6	Tier 1 ratio (%)	22.94%	22.09%
7	Total capital ratio (%)	23.32%	22.58%
Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)			
UK 7a	Additional CET1 SREP requirements (%)	0%	0%
UK 7b	Additional AT1 SREP requirements (%)	0%	0%
UK 7c	Additional T2 SREP requirements (%)	0%	0%
UK 7d	Total SREP own funds requirements (%)	8%	8%
Combined buffer requirement (as a percentage of risk-weighted exposure amount)			
8	Capital conservation buffer (%)	2.50%	2.50%
9	Institution specific countercyclical capital buffer (%)	1%	0%
UK9a	Systemic risk buffer (%)	0%	0%
10	Global Systemically Important Institution buffer (%)	0%	0%
UK10a	Other Systemically Important Institution buffer	0%	0%
11	Combined buffer requirement (%)	3.5%	2.5%
UK11a	Overall capital requirements (%)	11.50%	10.50%
12	CET1 available after meeting the total SREP own funds requirements (%)	11.44%	11.59%
Leverage ratio			
13	Total exposure measure	2,013,994	1,918,037
14	Leverage ratio (%)	7.3%	6.9%
Liquidity Coverage Ratio			
15	Total high-quality liquid assets (HQLA) (Weighted value -average)	285,400	296,900
UK16a	Cash outflows - Total weighted value	116,200	108,500
UK16b	Cash inflows - Total weighted value	21,700	24,800
16	Total net cash outflows (adjusted value)	94,500	83,700
17	Liquidity coverage ratio (%)	341%	359%
Net Stable Funding Ratio			
18	Total available stable funding	1,742,165	1,697,286
19	Total required stable funding	1,013,662	1,014,458
20	NSFR ratio (%)	172%	167%

2. RISK MANAGEMENT FRAMEWORK

Progressive Building Society is a mutual organisation owned by and run for the long-term benefit of its Members. The Board accepts risks as a natural occurrence in the provision of mortgages and savings products, but endeavors to mitigate and manage these risks. The main risks within the business are credit, market (including interest rate risk), capital, liquidity and operational risk.

The Society's risk management and governance arrangements provide processes for identifying and managing the most significant risks to the Society's objectives. These processes allow the Society to be aware of these risks at an early stage and as far as possible mitigate them.
The ability to properly identify, measure, monitor and report risk is vital in ensuring financial strength, appropriate customer outcomes and the ongoing security of Members' funds.

THE SOCIETY'S RISK MANAGEMENT FRAMEWORK COMPRISES FIVE ELEMENTS:

a. Articulation of Society's Risk Appetite by the Board of Directors

An effective governance framework is in place within which the Board provides clear and transparent direction to management on the Society's risk appetite and related strategy. Further, the Society's remuneration and incentive structures are aligned with its strategy and risk appetite and appropriate to the Society's objectives.

b. Board Committee structures overseeing the Risk Management and Internal Control Framework

Board Committee structures are in place to enable the effective oversight of the Risk Management Framework (including internal controls) within the Society and to support and provide guidance to the management committees and to the risk function in the execution of their roles.

These Committees include:

- Audit Committee
- Risk Committee

c. Internal Governance Framework

The Society operates an Internal Governance Framework that reflects the model promulgated by the Committee of Sponsoring Organisations (COSO), the European Banking Authority (EBA) and the Prudential Regulation Authority (PRA). The Society's Internal Governance Framework includes:

(i) A three lines of defence model.

(ii) Chief Risk Officer position with direct access to the Chair and non-executive Directors.

(iii) Management Committees (Asset and Liability Committee (ALCO), Senior Management Committee, Management Risk Committee) support the Risk Management Framework on a day-to-day basis. Critically, there is clear and appropriate delineation of the management and oversight roles of the management and Board Committees. This is reflected in management and Board Committees' Terms of Reference.

d. Appropriate Management Information

Management information is provided to the Board and Board Committees based on reporting parameters defined between the Board and management and it is directly related to the risk appetite and strategic objectives defined by the Board.

e. Continuous Process of Risk Assessment

It is important that the Society has the agility to respond to changes in the macro-economic environment, to new competition and to regulatory change and that the Society's Risk Management Framework supports a continuous approach of risk assessment and the determination of risk appetite and strategy. The 'three lines of defence' model ensures that there is an effective assessment of risks within the Society. The information provided to the Board by management directly and via the management committees continually supports the Board's consideration of the risks attached to the Society's business, the nature and strength of internal controls and the strategic options.

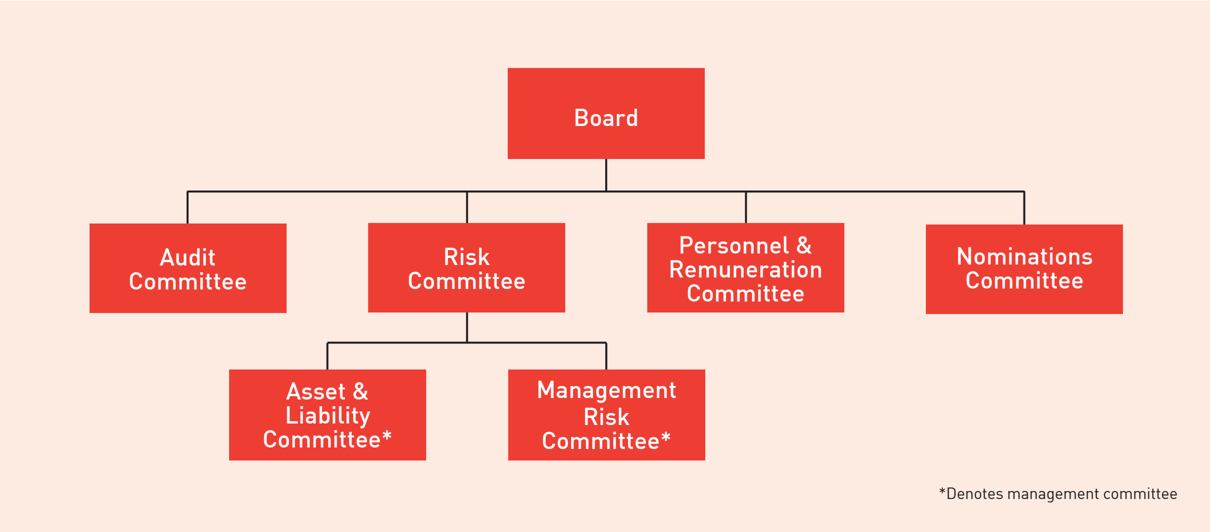
THREE LINES OF DEFENCE

The Society has a formal structure for managing risks and operates a 'three lines of defence' model which is recognised as an industry standard for risk management. The management of risks is detailed in risk management policies which are set by the Board.

- **First Line:** Primary responsibility for managing risk and ensuring controls are in place lies with the business units within the Society – the 'first line of defence'. Management have a responsibility to understand how risks impact their area of the Society and to put in place controls or mitigating activities.
- **Second Line:** The 'second line of defence' comprises risk management and compliance functions, whose key duties are to monitor and report risk – related practices and information, and to oversee all types of compliance and financial reporting issues.

  The 'second line of defence' defines preventive and detective control requirements and ensure that such requirements are embedded in the policies and procedures of the first line. It is independent of the first line and applies controls either on an ongoing (e.g. daily) or periodic basis. The Cyber Security Advisor also operates solely in the second line and seeks to continually improve the processes and controls around information governance and security.
- **Third Line:** Internal Audit provides the 'third line of defence' with independent assurance regarding the activities of the various business units. Internal Audit is an outsourced function and the Head of Internal Audit has an independent reporting line directly to the Chair of the Audit Committee. The Audit Committee approves the work programme of internal audit and receives reports on the results of the work performed.

The Society's Board and Committee structure in 2022 is as below:



BOARD

Composition: During 2022 the Board consisted of seven non-executive Directors and three executive Directors. The Chief Risk Officer attends by invitation. Details of the Board composition are provided in the Directors' Profiles in the Annual Report and Accounts.

Main Functions: The Board has responsibility for setting the Society's risk strategy and risk appetite and ensuring the Risk Management function is adequately and appropriately resourced via the Risk Committee. The Board has responsibility for approving all of the Society's key policies as recommended by the various committees.

Frequency: The Board met ten times in 2022.

AUDIT COMMITTEE

Composition: During 2022, the Audit Committee consisted of four non-executive Directors. Other non-executive Directors, executive Directors
and Senior Managers attend by invitation.

Main Functions: The Committee considers matters of internal and external audit arrangements, systems of control and financial reporting. The Society is required to take reasonable care to establish and maintain such systems and controls as are appropriate to its business. The Committee receives an Internal Audit report at each meeting on the risk management and adequacy of controls within particular business areas. The Committee reviews and challenges, where necessary, the actions and judgements of management.

Frequency: The Committee normally meets five times per year.

RISK COMMITTEE

Composition: During 2022 the Risk Committee consisted of five non-executive Directors. The Chief Executive, the Deputy Chief Executive & Finance Director and the Chief Risk Officer attend by invitation. The Head of Internal Audit also attends all meetings. Other individuals such as the Operations Director, Head of Lending and Savings, Senior Manager Risk & Compliance and Treasury Manager may be invited to attend all or part of any meeting as and when appropriate and necessary.

Main Functions: The Committee is responsible for setting the Society's risk appetite, for risk monitoring and for its capital and liquidity management frameworks. The Committee is also responsible for reviewing and challenging the Society's assessment and measurement of key risks, and for providing oversight and challenge to the design and execution of stress testing. The Risk Committee discusses the Individual Liquidity Adequacy Assessment Process and Internal Capital Adequacy Assessment Process, evaluates lending and liquidity quality and reviews business continuity arrangements. The Committee also considers conduct risk matters with regard to the Society delivering business in a clear, transparent and fair manner.

The principal management committees reporting to the Risk Committee are the Management Risk Committee and the Asset and Liability Committee. The Management Risk Committee is responsible for the ongoing identification and management of risks to the Society's business. The Asset and Liability Committee is responsible for the management and composition of the Society's assets and liabilities, monitoring the Society's exposure to interest rate variations, and monitoring and managing the operation of the Society's liquidity, wholesale funding and hedging policies.

Frequency: The Committee normally meets five times per year. During 2022 the Committee met seven times.

NOMINATIONS COMMITTEE

Composition: During 2022 the Nominations Committee consisted of three non-executive directors (being the Chair, Vice-Chair & Senior Independent Director) & the Chief Executive. The Deputy Chief Executive & Finance Director attends by invitation.

Main Functions: The Committee is responsible for reviewing the size, composition, skills, knowledge and experience required of the Board. Suitable candidates for membership of the Board are normally identified by independent search consultants for the consideration of the Committee and recommendations are then made to the Board.

Frequency: The Committee meets at least three times per year. During 2022 the committee met four times.

PERSONNEL AND REMUNERATION COMMITTEE

Composition: During 2022, the Personnel and Remuneration Committee consisted of four non-executive Directors. The Deputy Chief Executive & Finance Director and Head of Human Resources attend by invitation.

Main Functions: This Committee considers remuneration and contractual arrangements of executive Directors and the terms and conditions of employment for staff. Details of the Remuneration Policy can be found in the Directors' Remuneration Report.

Frequency: The Committee normally meets at least three times per year. During 2022 the committee met five times.

RISK STRATEGY

The Society's risk strategy reflects its committee structure. As such the Board approves the Board Risk Appetite Statement which contains both quantitative and qualitative risk measures. This statement is supported by a suite of risk metrics, limits and triggers designed to ensure the Society stays within Risk Appetite.

Secondary, more granular, risk statements are reviewed by the Board Risk Committee for approval by the Board. These risk statements set out the key risks, how they are managed and incorporate further limits and triggers which articulate the Society's Risk Appetite across all pertinent areas. This exposure is then monitored by the individual management level risk committees.

In addition, the third line of defence reviews the operation of controls during their assessments to provide assurance to the Board that controls are designed appropriately, operating as expected or where weaknesses are identified to assist the strengthening of the Risk Management Framework.

During 2022, the information received and considered by the Board and its Committees provided reasonable assurance that during the year there were no material breaches of control or regulatory standards and that the Society maintained an appropriate system of internal control. Where weaknesses in controls are identified by the three lines of defence the Board monitors the steps taken to remedy the issues and to ensure that the Society responds to changing external threats and economic circumstances and to the changing regulatory environment.

RISK APPETITE

The Society is a mutual organisation with no shareholders and is the custodian of its Members' long term financial interests. The Members are entitled to take for granted that their money is safe. The Society's Board adopts a prudent attitude to risk when setting its risk appetite.

The Board sets high level risk appetite statements and associated measurable limits to provide a framework for business decision making and to identify and articulate the risks that the Board is willing to take in delivering the Strategic Plan of the Society. The Society operates as a prudent organisation in the level of risk it is willing to take in order to achieve strategic goals. This approach has been disseminated by the Board throughout the Society, thereby clearly communicating the risk culture. This culture ensures the tone from the top, set by the Board, is reflected in behaviors and decision making. All Board members also conduct branch and department visits as part of the Society's integrated culture.

Additionally, the Board has set a boundary condition to be able to withstand severe but plausible stresses and continue to report an accounting
profit and meet minimum capital and liquidity requirements. The Society utilises early warning indicators through a variety of Key Risk Indicators, Board limits and regulatory limits to highlight any area of concern or potential breach of risk appetite.

The Society's performance against Board limits and early warning indicators is reviewed on a monthly basis by the Board and examined on a quarterly basis by the Board Risk Committee.

STRESS TESTING

The Society has a Stress Testing Framework in place to ensure it meets regulatory and business requirements. The objective of the framework involves both stress and scenario testing and helps to support wider strategic making at Board level and also operational business management.

Society-wide stress tests are an integral part of the annual business planning process and annual review of risk appetite. Tests are designed to ensure that the Society's financial position and risk profile provide sufficient resilience to withstand the impact of severe economic stress on the market (systemic stress) or stress events that would only impact the Society (idiosyncratic stress).

Stress testing also informs early-warning triggers, management actions, contingency and recovery plans to mitigate potential stresses and vulnerabilities and as such is integral to the Society's risk management framework.

The Stress Testing Framework also includes reverse stress testing techniques which aim to identify circumstances under which the Society's business model is no longer viable, leading to a significant change in business strategy. Stress testing is used to identify and review the potential effectiveness of management actions that would be taken to mitigate the impact of a stress.

3. RISK MANAGEMENT OBJECTIVES AND POLICIES

Progressive Building Society looks to manage the risks that arise from its operations of providing financial products. These risks are managed using forecasts and stress testing models to help guide the business strategies and use the Board, committees and management to monitor and control specific risks.

CREDIT RISK

Credit risk is the risk that customers or counterparties will not be able to meet their obligations as they fall due. The Society faces this risk from its lending operations to retail mortgage customers and to wholesale liquidity counterparties.

All mortgage applications are assessed with reference to the Board approved lending policy and considering the affordability of the borrowers'
loan repayments. Loans are only granted against valuations based on physical inspections of the properties or approved automated valuation models. For an analysis of the Society's Mortgage Assets see Appendix 1. Details of mortgage provisions are analysed in Appendix 3.

The Society utilises derivative instruments to hedge its exposure to interest rate risk. All of the Society's derivatives are bilateral and conducted over-the-counter and are governed by International Swaps and Derivatives Association (ISDA) agreements. Each of the ISDA agreements is supported by a Credit Support Annex (CSA). The CSAs govern the process of mitigating any credit risk that may result from the derivatives. This includes the frequency and method of valuing any credit risk exposure and the movement of margin collateral between the Society and the counterparty. The Society had historically used interest rate derivatives which referenced LIBOR. LIBOR ceased at the end of 2021 with a regulatory requirement for all firms to transition to alternative benchmark rates before this date. The Directors signed up to ISDA Fallback Protocols which amended these derivative agreements to include 'fallback' rates so that the derivatives transitioned seamlessly to reference new adjusted Risk Free Rates in 2022.

The Society posts margin (collateral) when marked to market (MTM) interest rate swap values move against the Society and calls margin should MTM values move in the Society's favour. Exposure is monitored on a daily basis and compared to counterparty valuations, which are then reviewed to ensure valuations are reasonable.

The Board is responsible for approval of treasury counterparties, regular review of their credit risk and setting limits on wholesale market credit exposures. During 2022 the Society maintained a very prudent approach to liquidity management, placing funds with the Bank of England, in UK Government debt, and for shorter periods, with highly regarded financial institutions. The Treasury function operates within a strict control framework and exposures are monitored on a daily basis.

The purpose of the Society's counterparty treasury credit risk management policy is to ensure that the Society can obtain the best possible return whilst operating within prudent limits in respect of counterparties. The methodology for establishing counterparty limits involves consideration of the background rating information from the Fitch ratings agency and balance sheet data relevant to the counterparty.

New credit limits are recommended to the Board by the Risk Committee for ratification. Existing credit limits may be removed or suspended with immediate effect due to rating downgrades or adverse market intelligence. All limits are reviewed on a regular basis by the Asset and Liabilities Committee (ALCO) and monitored by Treasury staff on a daily basis. No dealing will take place with counterparties which do not have a pre-approved limit. For an analysis of the Society's Treasury Assets see Appendix 2.

The Society has adopted the Standardised Approach (Basel III) for the calculation of the credit risk capital requirement.

MARKET RISK

Market risk is the risk of changes to the Society's profit due to changes in interest rates or exchange rates. For capital adequacy purposes the Society is not directly exposed to exchange rate risk because it does not engage in trading activity and all assets and liabilities are denominated in sterling.

INTEREST RATE RISK

The Society is exposed to interest rate risk, principally arising from the provision of fixed rate lending and savings products. The various features and maturity profiles for these products, create interest rate risk exposures due to the imperfect matching of interest bases between different financial instruments and the timing differences on the re- pricing of assets and liabilities.

A parallel shift in interest rates of 2% is used to assess the effects of an interest rate shock. The Society's risk appetite in this area has been established by the Board as 5% of Common Equity Tier 1 (CET1) Capital for a movement in economic value (EV) against a shift in interest rates of this magnitude. The Society also utilises an operating range of 3.5% of CET1 to ensure the 5% limit is not breached. Once the 3.5% operating range has been surpassed, the Society reviews the position and the forecast position over the next few months which may necessitate taking decisive action to reduce the potential impact of interest rate risk on the balance sheet. As at 31st December 2022 the effect of a 2% parallel shift in interest rates was £1.9m being well within the 5% of CET1 limit (£7.3m).

The Society also monitors the six prescribed interest rate shocks devised by the PRA. The PRA expects these shocks to act as an early warning indicator should the decline in EV be greater than 15% of CET1. The Society's exposure to EV against the six interest rate shock scenarios is significantly lower than regulatory requirements. The Society's positions against these shocks as at 31st December 2022 were as follows:

Interest Rate Sensitivity Scenario	EV Impact £m
Interest rate shift of +2.5%	-£2.1 m
Interest rate shift of -2.5%	+£2.4 m
Short Rates Up	-£0.4 m
Short Rates Down	+£0.4 m
Shock Flattener	+£0.4m
Shock Steepener	-£0.8m

Interest rate sensitivity also arises from the potential for different types of interest bases to move in different ways (e.g. fixed rate mortgages funded by variable rate savings products). This is called basis risk and is reported to and monitored by ALCO on a monthly basis. The Board has also put early warning indicators in place to highlight any potential future basis risk problems and to help ensure the Society can respond appropriately.

Derivatives are used to limit the extent to which the Society will be affected by changes in interest rates. Derivatives are used exclusively to hedge risk exposures.

The principal derivatives currently used by the Society are interest rate exchange contracts, commonly known as interest rate swaps. The Society uses derivatives in accordance with the terms of the Building Societies Act 1986. This means that such instruments are not used in trading activity or for speculative purposes and, accordingly, they are used exclusively to reduce the risk of loss arising from changes in interest rates.

Another significant form of interest rate risk arises from the imperfect correlation between re-pricing of interest rates on different assets and liabilities, often referred to as basis risk. Basis risk is monitored by ALCO on a monthly basis and is kept within set Board limits by adjusting product prices and availability.

LIQUIDITY RISK

Liquidity risk is the risk that the Society cannot satisfy the Overall Liquidity Adequacy Rule (OLAR) by having insufficient liquidity resources to meet its financial obligations as they fall due. The risk is managed principally by the holding of cash and other readily realisable assets in order to meet daily business requirements, to meet any unexpected cash needs and to maintain public confidence.

The Society is responsible for the effective management of its liquidity and funding risks. The Society defines its liquidity risk appetite through adherence to OLAR. The Society's OLAR provides a risk appetite level which ensures prudent levels of liquid assets to meet obligations in normal and stressed conditions.

The Treasury back office function monitors adherence to the Funding and Liquidity policies on a daily basis. Any breaches are referred to the Chief Executive or Deputy Chief Executive & Finance Director in the first instance and then ALCO and the Board. The Society also has a Liquidity Contingency Plan in place which sets out steps the Society would take if faced by a liquidity stressed event of varying degrees of seriousness.

The Society conducts an Individual Liquidity Adequacy Assessment Process (ILAAP) at least annually, which is reviewed by the Risk Committee and approved by the Board. The ILAAP identifies all the major liquidity risks faced by the Society and ensures adequate liquidity is maintained.

The Society expresses its daily liquidity needs as an internal liquidity requirement, which is based on estimated requirements for liquid assets in a severe but plausible stress scenario. Additionally, the regulatory Liquidity Coverage Ratio (LCR) expresses the Society's liquidity holdings and requirements using a short-term 30-day stress scenario.

The information in the table below relates to the Society's LCR based on the end month observations over the preceding 12 months for each quarter of the year ended 31 December 2022. As demonstrated, the LCR is well above the regulatory minimum (100% LCR) and illustrates the Society's strong liquidity position.

	Q1 2022	Q2 2022	Q3 2022	Q4 2022
Average LCR %	**322%**	**283%**	**288%**	**317%**
Average highly quality liquid assets (HQLA)*	**£292.2m**	**£272.2m**	**£285.2m**	**£292.1m**
Average stressed outflows	**£113.8m**	**£114.6m**	**£119.2m**	**£117.3m**
Average stressed inflows	**£23.1m**	**£18.3m**	**£20.2m**	**£25.1m**
Average stressed net outflows	**£90.7m**	**£96.3m**	**£99.0m**	**£92.2m**

*consists of cash or liquid assets that can be converted into cash at little or no loss of value.

OPERATIONAL RISK

Operational risk is the risk of loss arising from inadequate or failed internal processes or systems, human error or external events. It includes errors, omissions, natural disasters and deliberate acts such as fraud. This risk is managed by individual business areas through a series of appropriate controls and procedures. Reporting is by exception to the Risk Committee and ultimately the Board.

The Society's operational risk management framework sets out the strategy to identify, assess and manage operational risk with senior management having responsibility for understanding the nature and extent of the impacts on each business area and for embedding the appropriate controls to mitigate those risks. The framework is reviewed periodically to take account of changes in business profile, new product development and the external operating environment.

Operational Resilience forms an integral part of the Society's overall strategy. Plans are in place to deliver critical services, no matter what the cause of the disruption. This extends beyond business continuity and disaster recovery, and also includes man-made threats such as physical and cyber-attacks, IT system outages and third-party supplier failure as well as natural hazards such as fire, flood, severe weather and pandemic flu. The Society has clearly articulated and formally adopted objectives with regard to Operational Resilience. The objective is to ensure that Society operational resilience arrangements meets the regulatory and business requirements and provides key stakeholders with appropriate assurance regarding the Society's preparedness in the event of an operational resilience incident.

Risk appetite for all risk categories is expressed by the Board by reference to the most significant net risks recorded in the Society's risk registers. Each risk on the risk register is assessed using a 'Probability/Impact' matrix which is used to quantify, in financial terms, potential risk to the Society, before and after taking into account the effectiveness of management controls, and other forms of mitigation. Risk appetite is quantified in terms of a limit which a single risk exposure should not exceed. For individual risks which are deemed unacceptable, remedial action is taken including introducing or enhancing the operational controls and/or risk mitigants related to the individual risk, or taking appropriate action to eliminate the risk altogether.

All key Society controls are documented and reviewed annually with any control changes being formally reviewed by the Risk and Compliance department.

The risk registers are subject to regular review by each risk owner and the Society's Risk and Compliance Department, with the highest scoring risks for the Society as a whole reported to the Board periodically.

The risk registers and risk assurance framework are subject to review by Society Internal Audit. The focus and prioritisation of the Internal Audit annual programme is linked closely to an assessment of the risk registers and highest scoring risks.

The Society has adopted the Basic Indicator Approach (Basel III) for calculation of the operational risk capital requirement.

A breakdown of the calculation of capital requirements for Operational Risk is provided below:

	2020 £000's	2021 £000's	2022 £000's	Own funds requirements £000's	Risk Weighted Exposure Amount £000's
Banking activities subject to basic indicator approach	**20,455**	**23,591**	**28,577**	**3,631**	**45,388**

CONCENTRATION RISK

Concentration risk is the risk of loss arising from over-exposure to a single borrower or group of borrowers. This may arise through geographical region or industry sector concentrations.

As a regional building society, Progressive has a geographical lending concentration in Northern Ireland. 100% of the mortgage book is in Northern Ireland. This risk is carefully managed through prudent lending criteria. Lending is spread throughout the Province by virtue of branches and agents in all of the major cities and towns and is monitored by the Risk Committee on a quarterly basis.

Sectoral concentrations are managed and monitored through compliance with the Lending and Treasury policies and reporting to the Risk Committee by ALCO and ultimately the Board.

BUSINESS RISK

Business risk is the exposure of the Society's performance caused by uncertainty in the economy. It is any risk that may affect the Society's ability to meet its core objectives. Progressive looks to mitigate this risk by having a range of products so that its income source is not reliant on one product or one area of business.

PENSION LIABILITY RISK

Pension liability risk is the risk that there may be a shortfall with respect to benefits due to employees/former employees within a defined benefit pension scheme. The Society operates a defined benefit pension scheme which is closed to new members. The executive Directors are members but also participate in an unfunded arrangement. New members of staff are eligible to join the Society's defined contribution pension scheme.

The possibility exists of further detrimental impact on the Society's reserves due to increased life expectancy, falling interest and equity prices
and increased staff salaries.

Progressive is advised by a major actuarial consulting firm specialising in pension administration and advice.

CONDUCT RISK

The Board defines conduct risk as the risk of the Society failing to treat its Members fairly, with resulting detriment to those Members. The Society endeavours to achieve good outcomes for its Members.

The Society recognises that failure to manage conduct risk can lead to unfair treatment of Members or mishandling of Members' accounts and may adversely affect its business operations, threaten its objectives and strategies and the objectives of the regulator.

The Society is committed to the operation of a Conduct Risk Framework (including a Conduct Policy) to facilitate management in the identification and monitoring of conduct risk and in ensuring compliance with regulatory requirements. However, it is not merely an exercise to ensure regulatory compliance as it is considered a key governance and management process and part of the culture of placing Members at the heart of all we do.

It is the responsibility of the Board to ensure that the Conduct Risk Framework and Appetite Statement are implemented and that good conduct and fair treatment of Members is embedded in the Society's overall philosophy. The Society will continue with its aim of putting its Members at the centre of the business.

The Risk Committee forms part of the Society's overall governance and control framework and is tasked with oversight of the Society's conduct in relation to its members. Pursuing good Member outcomes is integral to the Society's culture. Internal and external independent reviews are undertaken to evaluate the effectiveness of the Society's culture.

ENVIRONMENTAL RISK / CLIMATE CHANGE

The Society also recognises the risks and challenges posed by climate change. Work in addressing these risks has started apace across the Society. It has reviewed lending policies to tighten controls in relation to future climate risks and performed a full review of the risks posed by existing loans. The Society is aware of two principal types of risks: physical and transitional. Physical risks relates to specific weather events such as flooding, or longer-term events such as rising sea levels. A key element of this risk is to property, both the Society's own properties and properties held as security for lending. Transition risks can arise from the process of adjustment towards a low-carbon economy. This could lead to a changing regulatory expectation in terms of the way the Society is expected to run its own business, including who it uses as suppliers. It may also impact property held as security, for example, the energy efficiency expectations of mortgaged properties.

As a building society, Progressive's own impact on the environment relates mainly to travel, heating and air conditioning. The Society will continue to reduce its impact on the planet through increased recycling, reduced waste, reduced travel and the use of greener fuels.
The Chief Risk Officer has responsibility for monitoring climate change risk across the Society, with oversight provided by the Risk Committee.

4. CAPITAL RESOURCES

The Capital resources of the Society are calculated under Pillar 1 of the Capital Requirements Directive.
The following table shows the breakdown of available capital for the Society:

UK CC1 - Composition of regulatory own funds

		31 December 2022 £000's
	Common Equity Tier 1 (CET1) capital: instruments and reserves	
2	Reserves	149,505
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	149,505
	Common Equity Tier 1 (CET1) capital: regulatory adjustment	
8	Intangible assets (net of related tax liability) (negative amount)	(3,115)
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	(3,115)
29	**Common Equity Tier 1 (CET1) capital**	146,390
58	**Tier 2 (T2) capital**	2,399
59	**Total Capital (TC = T1+T2)**	**148,789**

The following table sets out a reconciliation between accounting and regulatory capital resources:

Reconciliation of Accounting and Regulatory Capital Resources	31 December 2022 £000's
Accounting Capital Resources:	
• General Reserves	149,903
• Other Reserves	(398)
Adjusted for:	
Collective provisions	2,399
Intangible assets	(3,115)
Regulatory Capital Resources	**148,789**

COMMON EQUITY TIER 1 CAPITAL

The majority of the Society's own funds are in the form of Common Equity Tier 1 (CET1), which consists of mainly retained earnings. The Prudential treatment of intangible assets is to deduct intangible assets from CET1 capital and the corresponding tax liability may be added back. The Society's collective impairment is included as part of Tier 2 Capital. At 31st December 2022, the Society's CET1 ratio was 22.94%.

5. CAPITAL ADEQUACY

CAPITAL MANAGEMENT

Principle 4 of the FCA's Principles for Businesses requires a firm to maintain adequate capital resources. Chapter 2 of the ICAA rules within the PRA Rulebook states that a firm must at all times maintain overall financial resources, including own funds and liquidity resources, which are adequate both as to amount and quality, to ensure there is no significant risk that its liabilities cannot be met as they fall due.

The Society continues to comply with the capital adequacy rules of the PRA by adopting the Standardised Approach to credit risk and the Basic Indicator Approach to operational risk. The Society conducts an Internal Capital Adequacy Assessment Process (ICAAP) at least annually, which is approved by the Board. The ICAAP identifies all the major risks faced by the Society and allocates capital as appropriate. The ICAAP is reviewed by the PRA in setting the Society's capital requirements. The Society maintains capital far in excess of that required by the regulator.

Progressive Building Society aims to maintain sufficient capital resources to ensure the financial security of the Society. In order to maintain this capital the Society needs to generate and retain profits that will add to the general reserves, the main source of capital.

CHALLENGE AND ADOPTION OF INDIVIDUAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP)

The Risk Committee monitors the Society's capital position with the aid of its ICAAP, which brings together the Risk Management Framework, corporate planning and capital management. The ICAAP involves discussions with the various business areas and how their current profiles may change, together with assessments for capital allocation. The ICAAP is prepared by the Finance Department and overseen by the Deputy Chief Executive and Finance Director in the first line of the three lines of defence model. The Chief Risk Officer, acting as the second line, then reviews the ICAAP prior to presentation to the Management Risk Committee and Board Risk Committee for challenge. This provides the non-executive Directors with a forum to challenge the scope of the risk and the severity of the underlying stress-testing assumptions. After review, the ICAAP is recommended by the Risk Committee to the Board for final review and adoption.

QUALITY OF CAPITAL

The objective of the Basel rules is to increase the ability of financial institutions to deal with shocks and stresses related to financial and economic factors. Common Equity Tier 1 is regarded as the highest quality of capital and Basel III rules state that a greater proportion of the Pillar I capital requirement must be met from common equity tier 1 (4.5% of the total 8.0% minimum capital requirement). For the Society, CET1 capital is in the form of retained earnings (reserves) adjusted for items not eligible for inclusion in CET1 capital (Prudential treatment of intangible assets). The Society also has a small balance of Tier 2 Capital held in the form of a collective provision. All of the Society's historical capital qualifies as CET1 Capital, which is considered the highest possible quality of capital under regulatory rules.

LEVERAGE RATIO

Basel III introduced a non-risk based leverage ratio to supplement the risk based capital requirements. The Leverage ratio is the relation between CET1 capital and the total on and off balance sheet asset exposure, without taking in to account any risk weightings. The ratio does not distinguish between the credit quality of loans and acts as a primary constraint to excessive lending in proportion to the capital base. The Society is already well in excess of regulatory requirements.

The Society's leverage ratio at 31st December 2022 was 7.3% (31 December 2021 6.9%).

Leverage ratio	
Capital measure – CET1 (£000's)	**146,390**
Exposure measure (£000's)	**1,994,066**
Leverage ratio (%)	**7.3%**

Leverage Ratio Exposure Measure	£000's
Total assets as per published financial statements	1,900,204
Less: CET1 capital deductions	(3,115)
Positive market value of derivatives	(19,928)
Adjustments for derivative financial instruments *	3,679
Mortgage Pipeline	113,226
Leverage ratio total exposure measure	1,994,066

* The accounting value of derivatives has been converted into an exposure value under CRR2.

CAPITAL BUFFERS

To encourage adequate build-up of loss absorbing capital that can be used in times of stress Basel III requires the use of common equity capital buffers. These include a Capital Conservation Buffer (CCB) of 2.5% of Risk Weighted Assets (fully phased in from 1 January 2019) and a Counter Cyclical Capital Buffer (CCyB) of up to 2.5% of Risk Weighted Assets which can be applied by regulators when macroeconomic conditions dictate. The CCyB rate increased from 0% to 1% on 13th December 2022 and is planned to increase to 2% on 5th July 2023.

Each institution's specific CCyB rate is a weighted average of the CcyB's that apply in the jurisdictions where the relevant credit exposure are located. All of the Society's credit exposures are in the UK therefore the Society's institution specific CcyB is also 1% (planned increase to 2% from 5th July 2023).

In addition, globally systemically important banks are expected to hold a buffer of up to 2.5%. This is not applicable to the Society.

The available Common Equity Tier 1 capital as a percentage of risk weighted assets to meet these buffers when they are implemented is shown in Section 7. Total Credit Risk Weighted Assets for the Society as at 31st December 2022 was £638.1m. As the Society currently has £79.9m of CET 1 capital in excess of Pillar 1 minimum capital requirements, this is more than sufficient to meet any additional regulatory capital buffer requirements. The Society's surplus capital continues to be in excess of £57.6m after applying the combined buffer capital requirement (CCB 2.5% and CCyB 1%), further confirming the Society's strong capital position and adherence to regulatory requirements. See page 25 for a breakdown of the Society's Pillar 1 minimum capital requirement.

Capital Buffer requirements 31 December 2022	% of Credit Risk Weighted Assets	Capital Required £000's
Capital Conservation Buffer	2.5%	15,953
UK Countercyclical Buffer	1%	6,381
Combined Buffer	**3.5%**	**22,334**

COUNTERPARTY CREDIT RISK

As part of the Basel III rules a capital charge for credit valuation adjustment (CVA) risk is required. The additional requirement is based on derivative instrument exposures that have not been cleared through a central counterparty. The impact on risk weighted assets is not currently material for the Society due to the current derivative profile, however the Society includes this within the Pillar 1 calculation.

6. ASSET ENCUMBRANCE

Asset encumbrance is a claim against an asset by another party, often in the form of security interests given on assets by a borrower to a lender.

The Society has pledged part of its loan book as collateral with the Bank of England, in order to participate in the Bank's Term Funding Scheme with additional incentives for Small and Medium-sized Enterprises (TFSME). Participation in this scheme provides the Society with a source of funding that diversifies the funding portfolio and reduces the overall funding cost. The loans remain fully owned and managed by the Society but are reported as encumbered assets. As at 31 December 2022, £98m (2021: £116m) of loans have been pledged as collateral to the Bank of England

Other encumbered assets are collateral posted for the derivative portfolio that supports the management of interest rate risk.
As at 31 December 2022, £1m (2021: £1.1m) was deposited as collateral under Credit Support Annex (CSA) agreements.
The Society also held £19.5m (2021: £1.3m) under CSA agreements.

7. MEASUREMENT OF CREDIT AND OPERATIONAL RISK CAPITAL

CREDIT RISK CAPITAL REQUIREMENT

Progressive Building Society has adopted the Standardised Approach to assess its credit risk weightings. Under this approach the level of capital required is calculated as:

Credit risk capital requirement = Credit Risk Weighted Assets X 8%

Credit Risk Weighted Assets = exposure value X risk weighting

CREDIT RISK EXPOSURES & CREDIT RISK CAPITAL REQUIREMENT AS AT 31 DECEMBER 2022

Exposure Class	Exposure Value (Net of provisions)	Pillar1 Credit Risk Weighted Assets £000
Residential Mortgage Assets	1,509,726	538,097
Commercial Mortgage Assets	4,840	4,840
Treasury Assets (Inc. swap replacement cost)	372,052	18,041
Other Assets	37,489	37,489
Mortgage Pipeline	113,226	39,645
Total	2,037,333	638,112

Credit Risk Capital Requirement = 638,112 X 8% = £51.0m

CREDIT RISK EXPOSURES & CREDIT RISK CAPITAL REQUIREMENT AS AT 31 DECEMBER 2021

Exposure Class	Exposure Value £000	Pillar1 Credit Risk Weighted Assets £000
Residential Mortgage Assets	1,442,356	514,618
Commercial Mortgage Assets	5,558	5,616
Treasury Assets (Inc. swap replacement cost)	362,444	19,396
Other Assets	15,894	15,894
Mortgage Pipeline	97,239	34,256
Total	1,923,491	589,780

Credit Risk Capital Requirement = 589,780 X 8% = £47.2m

OPERATIONAL RISK CAPITAL REQUIREMENT

An evaluation of capital required to cover Operational Risk is calculated under the Basic Indicator Approach and determined by reference to the Society's net income, averaged over the previous 3 years. Progressive's minimum (Pillar 1) capital requirement for operational risk at 31st December 2022 was:

	Pillar 1 Operational Risk Capital Requirement £000
Basic Indicator Approach	£000
	3,631

Progressive's minimum (Pillar 1) capital requirement for operational risk at 31st December 2021 was:

	Pillar 1 Operational Risk Capital Requirement £000
Basic Indicator Approach	£000
	3,284

MINIMUM CAPITAL REQUIREMENT – PILLAR 1 AS AT 31ST DECEMBER 2022

	£000
Pillar 1 - Credit Risk Capital Requirement	51,049
- Operational Risk Capital Requirement	3,631
- Market Risk Capital Requirement (CVA Requirement*)	100
Minimum Capital Requirement (Pillar 1)	54,780
Capital Resources – CET1	146,390
Excess of Capital Resources over Minimum Capital Requirement	91,609

*Credit Value Adjustment

The Society has adequate capital resources showing an excess of £91.6 million of capital resources over minimum capital requirements as at 31st December 2022.

MINIMUM CAPITAL REQUIREMENT – PILLAR 1 AS AT 31ST DECEMBER 2021

	£000
Pillar 1 - Credit Risk Capital Requirement	47,182
- Operational Risk Capital Requirement	3,284
- Market Risk Capital Requirement (CVA Requirement*)	109
Minimum Capital Requirement (Pillar 1)	50,575
Capital Resources – CET1	132,131
Excess of Capital Resources over Minimum Capital Requirement	81,556

*Credit Value Adjustment

8. PERSONNEL & REMUNERATION COMMITTEE AND POLICY

A key objective of the Committee is to make recommendations to the Board on the remuneration policy of the Society and in particular the remuneration of Executive Directors.

The Society's objective in setting remuneration policies is to ensure that they are in line with its business strategy, risk appetite and long-term objectives and that remuneration is set at a level to retain, attract and motivate high quality staff.

The Committee is comprised of three non-executive Directors. The Chief Executive, the Deputy Chief Executive & Finance Director and the Head of Human Resources attend by invitation.

Further details regarding the remuneration policy and the decision-making process used in determining remuneration, are set out in the Directors' Remuneration Report in the 20221 Annual Report and Accounts.

MATERIAL RISK TAKERS

The Society has identified 63 employees during 2022 that had a material impact on the risk profile of the Society as set out in accordance with Article 92 CRD and the PRA rulebook 3.1 Material Risk Takers. The categories of employees cover:

Supervisory Function – Non Executive Directors and Chair

Management Function – Executive Directors

Other Senior Management – Senior Management Committee

Other Identified Staff - Other Identified Certified staff within the PRA's Certification Regime.

Payments made to Material Risk Takers in 2022 were as follows:

Remuneration paid to Material Risk Takers	£000's
Fixed	1,887
Variable	181

Further details by Material Risk Taker category and business functions are set out in the prescribed PRA templates below.

UK REM1 – REMUNERATION AWARDED FOR THE FINANCIAL YEAR

			MB Supervisory function	MB Management function	Other senior management	Other identified staff
1	Fixed remuneration	Number of identified staff	8	3	5	13
2		Total fixed remuneration	244,344	596,114	508,647	537,569
3		Of which: cash-based	244,344	596,114	508,647	537,569
4		(Not applicable in the UK)				
UK-4		Of which: shares or equivalent ownership interests				
5		Of which: share-linked instruments or equivalent non-cash instruments				
UK-5		Of which: other instruments				
7		Of which: other forms				
9	Variable remuneration	1 Number of identified staff	8	3	6	13
10		1 Total variable remuneration	0	59,370	43,561	78,216
11		Of which: cash-based	0	59,370	43,561	78,216
12		Of which: deferred				
UK-14a		Of which: shares or equivalent ownership interests				
UK-14a		Of which: deferred				
UK-13b		Of which: share-linked instruments or equivalent non-cash instruments				
UK-14b		Of which: deferred				
UK-14x		Of which: other instruments				
UK-14y		Of which: deferred				
15		Of which: other forms				
16		Of which: deferred				
17	**Total remuneration (2 + 10)**		**244,344**	**655,484**	**552,208**	**615,785**

UK REM2 – SPECIAL PAYMENTS TO STAFF WHOSE PROFESSIONAL ACTIVITIES HAVE A MATERIAL IMPACT ON THE INSTITUTIONS' RISK PROFILE (IDENTIFIED STAFF)

		MB Supervisory function	MB Management function	Other senior management	Other identified staff
	Guaranteed variable remuneration awards				
1	Guaranteed variable remuneration awards - Number of identified staff				
2	Guaranteed variable remuneration awards -Total amount				
3	Of which guaranteed variable remuneration awards paid during the financial year, that are not taken into account in the bonus cap				
	Severance payments awarded in previous periods, that have been paid out during the financial year				
4	Severance payments awarded in previous periods, that have been paid out during the financial year - Number of identified staff				
5	Severance payments awarded in previous periods, that have been paid out during the financial year - Total amount				
	Severance payments awarded during the financial year				
6	Severance payments awarded during the financial year - Number of identified staff				1
7	Severance payments awarded during the financial year - Total amount				30,000
8	Of which paid during the financial year				30,000
9	Of which deferred				
10	Of which severance payments paid during the financial year, that are not taken into account in the bonus cap				
11	Of which highest payment that has been awarded to a single person				

UK REM5 – INFORMATION ON REMUNERATION OF STAFF WHOSE PROFESSIONAL ACTIVITIES HAVE A MATERIAL IMPACT ON THE INSTITUTIONS RISK PROFILE (IDENTIFIED STAFF)

	Management body remuneration			Business areas						
	MB Supervisory function	**MB Management function**	**Total MB**	**Investment banking**	**Retail banking**	**Asset management**	**Corporate functions**	**Independent internal control functions**	**All other**	**Total**
Total number of identified staff					10		8			29
Of which: members of the MB	8	3	11							
Of which: other senior management							5			
Of which: other identified staff					10		3			
Total remuneration of identified staff	244,344	655,485	899,829		524,589		643,403			
Of which: variable remuneration		59,370	59,370		64,455		57,322			
Of which: fixed remuneration	244,344	596,114	840,458		460,134		586,081			

APPENDIX 1 – ANALYSIS OF MORTGAGE ASSETS

MATURITY ANALYSIS OF MORTGAGE ASSETS

As at 31st December 2022	Maturity Analysis 0←3 months £000	3←12 months £000	1←5 years £000	→5 years	Total £000
Mortgage Assets	22,947	54,709	311,752	1,127,981	1,517,389
Provisions					(5,222)
Other*					(17,825)
Balance Sheet Total					1,494,342

*Other – Fair Value Adjustment for Hedged Risk (-£18.8m) & Unamortised loan origination fees (£1.0m)

As at 31st December 2021	Maturity Analysis 0←3 months £000	3←12 months £000	1←5 years £000	→5 years	Total £000
Mortgage Assets	23,719	58,825	310,919	1,057,184	1,450,647
Provisions					(3,960)
Other*					(937)
Balance Sheet Total					1,445,750

*Other – Fair Value Adjustment for Hedged Risk (-£1.7m) & Unamortised loan origination fees (£0.7m)

GEOGRAPHICAL ANALYSIS OF MORTGAGE ASSETS

As a regional building society 100% of the Society’s lending is secured on properties in Northern Ireland.

APPENDIX 2 – ANALYSIS OF TREASURY ASSETS

MATURITY ANALYSIS OF TREASURY ASSETS

Fitch Long Term Ratings as at 31st December 2022	Maturity Analysis 0<–3 month £000's	3<–12 month £000's	1<–5 year £000's	–>5 year £000's
Central Bank	130,000	0	0	0
Gilts/TBills	54,760	108,197	10,000	0
AAA to AA-	0	0	0	0
A+ to A-	33,000	8,500	0	0
BBB+ and below	7,000	2,000	0	0
Unrated Building Societies	0	0	0	0
Other	0	0	0	0
Repayable on demand	14,298			
Total	239,058	118,697	10,000	0
Accrued Interest	1,802			
Gilt Interest Accrual, Gilt FV	(1,184)			
Balance Sheet Total	368,373			

GEOGRAPHICAL ANALYSIS OF TREASURY ASSETS

As at 31st December 2022	UK £000	Rest of Europe £000	Rest of World £000	Total £000
Treasury Assets	367,755	0	0	367,755
Accrued Interest				1,802
Gilt Interest Accrual, Gilt FV				(1,184)
Balance Sheet Total				368,373

Fitch Long Term Ratings as at 31st December 2021	Maturity Analysis 0<-3 month £000's	3<-12 month £000's	1<-5 year £000's	->5 year £000's
Central Bank	202,000	0	0	0
Gilts/TBills	9,999	79,999	10,000	0
AAA to AA-	0	0	0	0
A+ to A-	13,060	16,500	0	0
BBB+ and below	3,000	7,000	0	0
Unrated Building Societies	0	0	0	0
Other		3,244		
Repayable on demand	13,305			
Total	241,364	106,743	10,000	0
Accrued Interest	376			
Gilt Interest Accrual, Gilt FV	507			
Balance Sheet Total	358,990			

GEOGRAPHICAL ANALYSIS OF TREASURY ASSETS

As at 31st December 2020	UK £000	Rest of Europe £000	Rest of World £000	Total £000
Treasury Assets	358,107	0	0	358,107
Accrued Interest				376
Gilt Interest Accrual, Gilt FV				507
Balance Sheet Total				358,990

APPENDIX 3 - PROVISIONS

A loan loss provision is an expense set aside as an allowance for uncollected loans and loans payments. This provision is used to cover a number of factors associated with potential loan losses.

The Society operates a loan loss provisioning model to calculate provisions on loans showing evidence of impairment. Evidence of impairment may include indications that the borrower(s) are experiencing significant financial difficulty, default or delinquency in interest or principal payments, etc.

If there is objective evidence that an impairment loss has been incurred, the amount of the loan is measured as the difference between the asset's carrying amount and the net present value of estimated future cash flows discounted at the asset's effective interest rate.

The creation of impairment provisions for a portfolio of mortgage loans is inherently uncertain and requires the exercise of a significant degree of judgement. To calculate the specific provisions required for each impaired loan the Society has developed a bespoke loan loss provisioning model which uses the following methodology:

- Account information is imported from the Society's core system into the model
- The original property values are revalued by the model in line with the Northern Ireland House Price Index (as compiled by the University of Ulster)
- Discount factors are applied to the revaluation to take account of a forced sale situation and discounts.
- Assumed possession costs and sale costs are added to the balance outstanding which is then compared with the revaluation giving the gross loss (if any)
- The gross provision is reduced by amounts recoverable from mortgage indemnity guarantee policies
- A propensity to possess factor is finally applied in order to adjust the provision for cases by considering the arrears as a percentage of the debt and the loan to value ratio to determine the likelihood of possession.

Collective provisions are made where it is considered that there is impairment in the value of assets that is not already covered by specific provisions.

ANALYSIS OF SOCIETY'S ARREARS

Arrears % of mortgage balance	2022 Loan balance outstanding £m	2021 Loan balance outstanding £m
1.50% - 2.50%	3.10	3.10
2.50% - 5.00%	2.90	2.30
5.00% - 7.50%	1.80	1.60
7.50% - 10.00%	1.10	1.00
10.00% +	3.30	2.00
Total	**12.20**	**10.00**

	2022 Loan balance outstanding £m	2021 Loan balance outstanding £m
Possessions	**0.80**	**1.40**

The amount shown as greater than 1.5% in arrears represents the full amount of the loan outstanding, not just the amount of the arrears. The Society's provision in relation to the arrears reduced in 2021. Provisions for bad debts saw a net charge of £1.7 million during the year (2021: £1.0m write back) due to the impact of inflation and the squeeze on household incomes. The job market statistics and local house prices have remained remarkably buoyant during the year. However, we anticipate that 2023 will see further pressures on affordability and house prices. The Society will act responsibly and help borrowers, who are struggling with affordability, to manage their positions depending on their individual circumstances.

APPENDIX 4 – ADDITIONAL PRESCRIBED PRA TEMPLATES

UK OV1 - OVERVIEW OF RISK WEIGHTED EXPOSURE AMOUNTS

		Risk-weighted exposure amounts (RWEAs) 31/12/2022 £000's	Total own funds requirements 31/12/2022 £000's
1	**Credit risk (excluding counterparty credit risk)**	**636,273**	**50,902**
2	Of which the standardised approach (SA)	636,273	50,902
6	**Counterparty credit risk (CCR)**	**1,839**	**147**
7	Of which the standardised approach for counterparty credit risk	1,839	147
8	Of which internal model method (IMM)	-	-
UK 8a	Of which exposures to a central counterparties (CCP)	-	-
9	Of which other CCR	-	-
10	**Credit valuation adjustment (CVA)**	**1,245**	**100**
15	**Additional AT1 SREP requirements (%)**	**-**	**-**
UK22a	**Large exposures**	**-**	**-**
23	**Operational risk**	**45,388**	**3,631**
29	**Total (1 + 6 + 10 + 11 + 15 + 22 + 23)**	**684,745**	**54,780**

UK CR4 – STANDARDISED APPROACH – CREDIT RISK EXPOSURE

	Exposure classes	Exposures		RWAs and RWAs density	
		On-balance sheet exposures £000's	Off-balance sheet amount £000's	RWAs £000's	RWAs density (%) £000's
1	Central governments or central banks	303,280	-	-	0%
2	Regional government or local authorities	-	-	-	0%
3	Public sector entities	-	-	-	0%
4	Multilateral development banks	-	-	-	0%
5	International organisations	-	-	-	0%
6	Institutions	68,772	-	18,041	26%
7	Corporates	-	-	-	0%
8	Retail	-	-	-	0%
9	Exposures secured by mortgages on immovable property	1,505,518	113,226	573,472	35%
10	Exposures in default	9,048	-	9,110	101%
11	Exposures associated with particularly high risk	-	-	-	0%
12	Covered bonds	-	-	-	0%
13	Institutions and corporates with a short-term credit assessment	-	-	-	0%
14	Collective investment undertakings	-	-	-	0%
15	Subordinated debt, equity and other own funds instruments	-	-	-	0%
16	Other items	37,489	-	37,489	100%
17	**Total**	**1,924,107**	**113,226**	**638,112**	**31%**

RWA density is expressed as a percentage of exposures (net of specific provisions).

UK CR5 – STANDARDISED APPROACH – EXPOSURE BY ASSET CLASS – AS AT 31ST DECEMBER 2022

	Exposure classes	Risk weight												Total	Of which unrated
		0%	20%	35%	50%	75%	100%	150%	250%	370%	400%	1250%	other		
		a	f	i	l	p	s	x	y	z	aa	ab	ac	ad	ae
1	Central governments or central banks	303,280												303,280	303,280
2	Regional government or local authorities													-	
3	Public sector entities													-	
4	Multilateral development banks													-	
5	International organisations		54,482		14,290									68,772	-
6	Institutions													-	
7	Corporates													-	
8	Retail exposures													-	
9	Retail estate exposures			1,604,490		9,414	4,840							1,618,744	1,618,744
10	Exposures in default						8,926	122						9,048	9,048
11	Exposures associated with particularly high risk													-	
12	Covered bonds													-	
13	Exposures to institutions and corporates with a short-term credit assessment													-	
14	Units or shares in collective investment undertakings													-	
15	Subordinated debt, equity and other own funds instruments													-	
16	Other items						37,489							37,489	37,489
17	Total	303,280	54,482	1,604,490	14,290	9,414	51,255	122	-	-	-	-	-	2,037,333	1,968,561

The Society makes limited use of External Credit Assessment Institutions (ECAIs) assessments for its Standardised exposures. Where a credit assessment is used this must be provided by an eligible ECAI from the PRA's approved list. The appropriate risk weight to apply to the credit risk exposure is determined by assigning the exposure to the relevant credit quality step under CRD V, based on the PRA's mapping of credit assessments to credit quality steps.

For the above disclosure, exposures are classed as 'rated' only where an ECAI rating has been used to derive the risk weight. Where a rating is unavailable, or where the risk weight has been determined by application of specific CRR provisions, exposures have been classed as 'unrated'. This also applies to central governments or central banks exposures within the UK and EEA that receive a zero per cent risk weight in line with regulatory permission.